

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Dairy and Products Annual

2018

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Report Highlights:

Growth in Canadian production of milk, cheese, butter, and skim milk powder will continue to slow down in 2019, as supply and demand for butterfat stabilize. Imports of European cheese under the CETA TRQ are expected to pick up pace in 2019, following the first full year of implementation, in which the quota was underfilled. FAS/Ottawa anticipates Canadian skim milk powder exports will set a new record in 2019, as production remains high and processors continue to unwind stocks.

Keywords: Canada, CA18057, Dairy, Milk, Cheese, Butter, SMP

Commodities:

Dairy, Milk, Fluid

Dairy, Cheese

Dairy, Butter

Dairy, Milk, Nonfat Dry

Executive Summary

With stocks of cheese and butter at record high levels, expansion in the Canadian dairy sector will continue to slow down in 2019, after several years of sustained growth prompted by unprecedented increases in butterfat demand. Since 2014, dairy farmers were able to gradually increase milk production and bring butterfat supply in line with demand. In early 2018, the processing sector signaled concerns of market oversupply, prompting the Eastern Canadian Milk Boards to adopt production reduction measures, including cuts in milk production quota.

Imports of cheese from the European Union under the Comprehensive Economic and Trade Agreement (CETA) tariff rate quotas (TRQs) are expected to expand in 2019, as the second full year of implementation brings the quota volume to 8,850 metric tons (MT) and as quota fill rates improve. For 2018, large volumes of the CETA cheese TRQs are expected go unfilled, with actual fill rates estimated to reach only 50 percent. Industry sources partly attribute the low fill rates to small, non-commercially viable quota volumes having been allocated to inexperienced, new quota holders, who faced difficulties navigating import logistics and regulations.

Butter stocks should remain ample in 2019, in line with industry requirements following sustained production increases. In June 2018, stocks of butter reached 44,700 MT, a record level and well above the targeted volume of 35,000 MT. FAS/Ottawa expects milk production cuts to reduce butter production, as industry unwinds accumulated stocks.

FAS/Ottawa forecasts 2019 skim milk powder (SMP) exports to reach 75,000 MT, a record high, as new processing capacity is expected to come into operation. 2018 SMP exports remained largely in line with the high 2017 level, as Canada continued to draw down SMP stocks. SMP exports surged 200 percent above the 2016 level to reach nearly 72,000 MT in 2017, after the federal government stopped managing surplus SMP and Canadian dairy processors looked to foreign markets to distribute excess stocks.

MILK

Production, Supply and Distribution (PS&D):

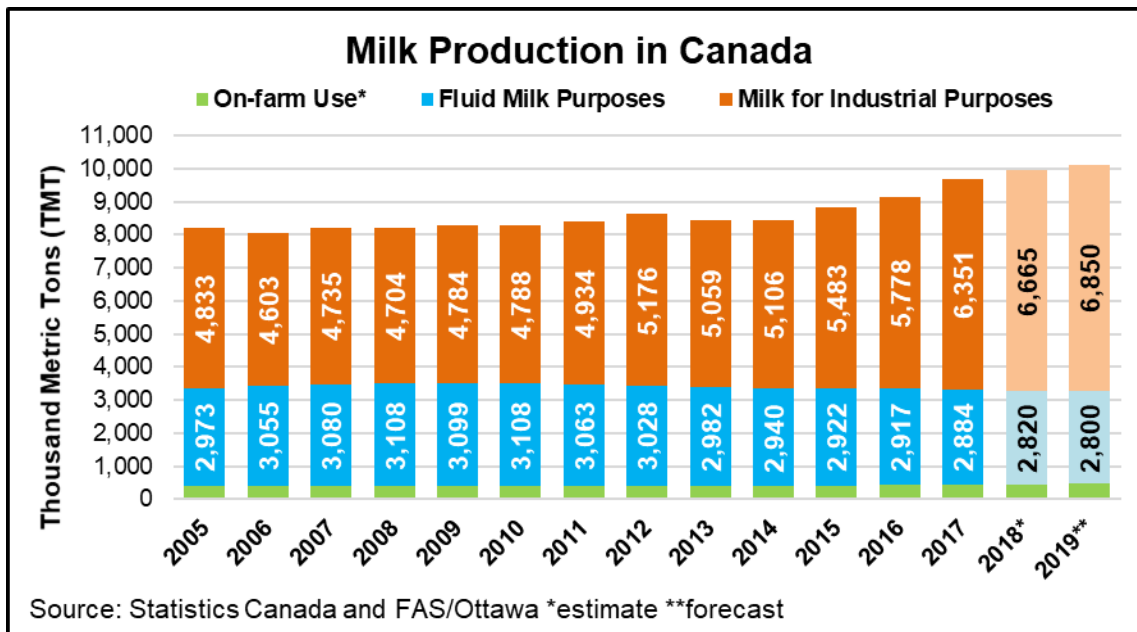
Dairy, Milk, Fluid Canada	2017		2018		2019	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Cows In Milk	945	945	945	972	0	965
Cows Milk Production	9,450	9,675	9,800	9,940	0	10,115
Total Production	9,450	9,675	9,800	9,940	0	10,115
Total Imports	52	45	50	40	0	40
Total Supply	9,502	9,720	9,850	9,980	0	10,155
Total Exports	9	9	8	7	0	5
Fluid Use Dom. Consum.	2,900	2,884	2,950	2,820	0	2,800
Factory Use Consum.	6,150	6,351	6,400	6,665	0	6,850
Feed Use Dom. Consum.	443	476	492	488	0	500
Total Dom. Consumption	9,493	9,711	9,842	9,973	0	10,150
Total Distribution	9,502	9,720	9,850	9,980	0	10,155

'1,000 head (cows) and '1,000 metric tons (the rest)

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

Production

Milk produced in Canada supplies two markets. The fluid milk market includes fluid milk for direct consumption, creams, and flavored milks. The industrial milk market (or milk for factory use) is milk used to make products such as butter, cheese, yogurt, ice cream, and milk powders. In recent years, the fluid milk market accounted for about 30 percent of total milk produced in Canada, and the industrial milk (factory use) market for approximately two thirds. On-farm use is estimated to account for less than five percent of total milk produced.



Canada maintains a supply management system for milk, in which production quota is allocated on a butterfat basis. The national Canadian Milk Supply Management Committee (CMSMC) sets the total quota based on the recommendations of the Canadian Dairy Commission (CDC). The CDC monitors the trends in Canadian dairy requirements and makes recommendations for adjustments to reflect changes in demand for milk. The CMSMC also applies the terms of the National Milk Marketing Plan (a federal-provincial agreement) to establish each province's share of the total quota. Quota increases and decreases are shared among regional pools, the Eastern Canadian Milk Pool (or P5), which includes Prince Edward Island, Nova Scotia, New Brunswick, Quebec, and Ontario, and the Western Milk Pool (WMP), which is made up of Manitoba, Saskatchewan, Alberta, and British Columbia. Each pool is then responsible for distributing shares of the quota to producers according to provincial policies and in accordance with pooling agreements.

In 2019, total milk production is forecast to reach a record 10.115 million metric tons (MMT) or nearly 2 percent above the estimated level for 2018 of 9.94 MMT. Milk production is likely to be supported by an [infant formula plant](#) in Ontario expected to come into operation in late 2019. Overall, the modest increase in 2019 milk production represents a slowdown compared to the growth experienced since 2014, signaling that supplies of butterfat have finally caught up with the increased demand.

Total milk production grew by nearly 15 percent between 2014 and 2017. Milk for the industrial market (factory use) was the driving force behind this production growth: between 2014 and 2017, industrial milk production increased by 24 percent, whereas the production of milk for the fluid market declined by 2 percent. This trend is likely to continue into 2019 as well, although at a slower pace: industrial milk production is forecast to increase by just over 2 percent in 2019, slowing down from the estimated growth of 5 percent in 2018. FAS/Ottawa expects milk for the fluid market to decline by 1 percent in 2019, following an estimated 2 percent drop in 2018.

During the first half of 2018, as cheese and particularly butter stocks were building up rapidly, the dairy industry expressed concerns of oversupply if milk production were to continue to grow at the pace observed in 2017. The P5 milk Boards¹ reacted to these concerns and on two occasions, on [April 20](#) and [June 22](#), announced measures to signal necessary reductions in milk production. These measures included cuts in production quota, reductions in the number of incentive days, additional constraints on using production credit days, and the reinstatement of penalties for over-production. Butter stocks reached a record level of 44,700 metric tons (MT) in June 2018, but had fallen to 40,100 MT by the end of July.

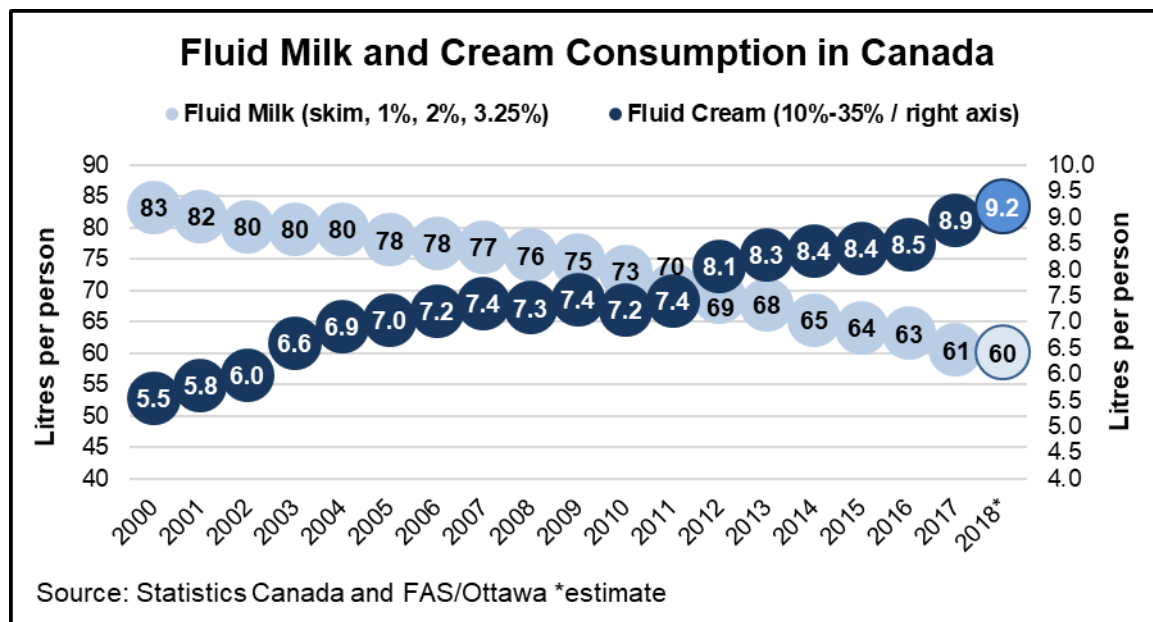
In any given year, there is no direct 1-to-1 relationship between announcements on milk production quota increases/cuts and the actual volume of milk produced. Production quota announcements function more like signals to dairy farmers to make the necessary adjustments to move production in the desired direction. The actual volume of milk produced is the result of a number of complex factors, which include quota announcements, the number of allowed incentive days, the number of production credit days claimed, the level of penalties for over-production, weather conditions, the quality of animal feed, etc.

¹ Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island

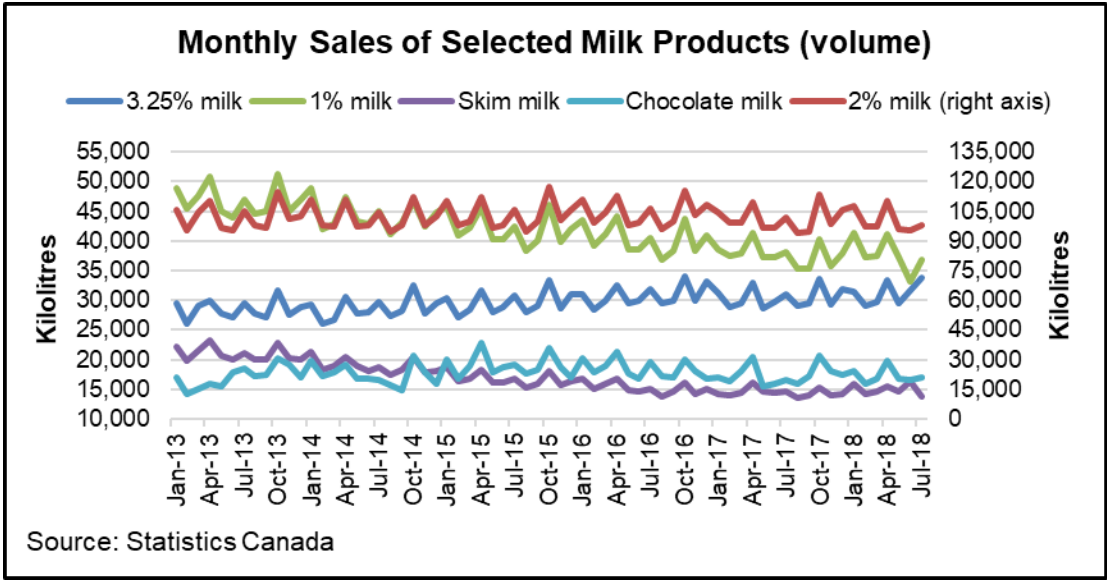
Over the past decade, dairy cows in Canada have become increasingly more productive, primarily because of improved genetics, but also due to on-farm improvements in terms of animal care, feed, management practices, robotic technology, number of milkings per day, etc. In 2008, the average volume of milk production per dairy cow was 8.0 MT annually. By 2017, this volume had grown 20 percent to 9.7 MT per year. FAS/Ottawa expects the trend to continue in 2019, projecting average dairy cow milk productivity to reach 10.0 MT annually.

Consumption

Per capita consumption of drinking milk continued to decline. However, sales data indicate that Canadians continue to buy more whole milk (3.25 percent butterfat) and less skim milk (zero percent butterfat) and reduced-fat milk (1 percent butterfat), following the overall trend of increased fat consumption in the Canadian diet.

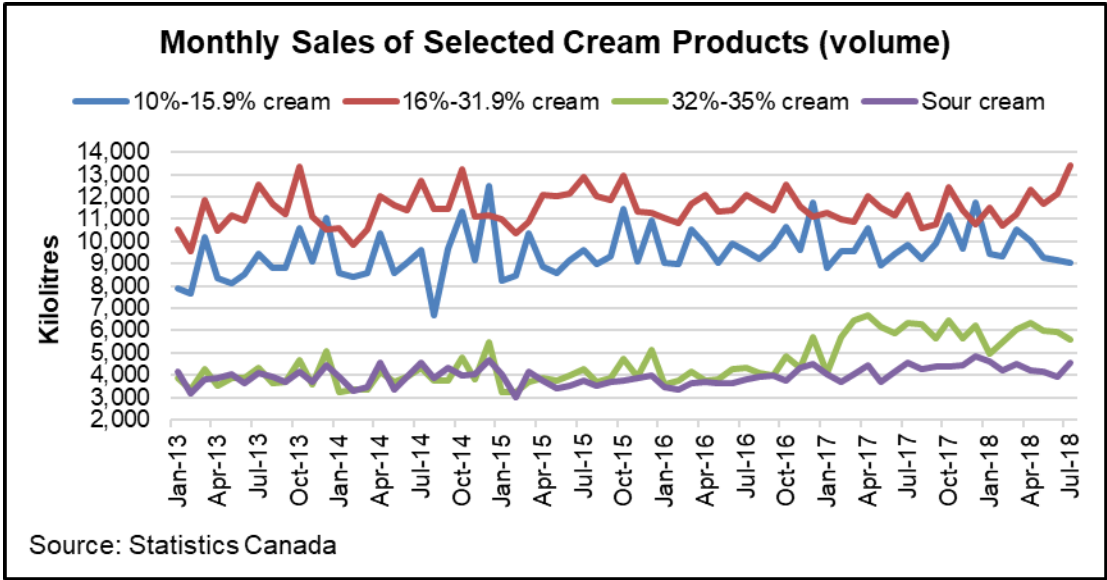


In June 2018, Coca-Cola Canada [announced](#) an \$85 million CAD investment to build a new production facility in Peterborough, Ontario to produce “fairlife” ultrafiltered, lactose-free milk. The fluid milk plant is scheduled to open in early 2020 and will produce skim, 2 percent, 3.25 percent and 2 percent chocolate milk in 1.5-liter PET bottles, as well as 2 percent and chocolate milk in 240 ml PET bottles. According to the company, fairlife milk contains 50 percent more protein and 50 percent less sugar than traditional milk.



In order to develop the Canadian market and build a customer base while the plant is being built, Coca-Cola has been importing fairlife milk from the United States, duty free, under special supplementary import permits since September 2018. These imports under supplementary permits are likely to continue until the beginning of 2020 when the Canadian fairlife milk plant is expected to enter into operation. The product was launched across Canada in September 2018 and is available in various grocery stores.

Cream consumption has increased due to the popularity of coffee culture and the changing consumer preference for higher fat content products. In particular, sales of whipping cream, which has 32-35 percent butterfat content, have grown at a substantial rate over the past couple of years: a 44 percent increase in sales between marketing year 2016 (August 2015 to July 2016) and marketing year 2018 (August 2017 to July 2018).



Trade

Under World Trade Organization (WTO) commitments, Canada maintains tariff rate quotas (TRQ) for fluid milk (64,500 MT) and for cream (394 MT). Due to market proximity and the perishable nature of fluid milk, the United States is the primary source for imports. Milk imports enter Canada under a [duties and taxes personal exemption](#), as well as under the [Maximum Quantity Limits for Personal Use Exemption](#), and the milk TRQ is considered ‘filled’ by Canadians grocery shopping across the border.

The WTO cream TRQ is first [allocated](#) to traditional importers who have an established distribution line for sterilized cream, minimum 23 percent butterfat content, in cans of a volume not exceeding 200 ml. Any remaining volumes not allocated to the traditional importers of sterilized cream are subsequently allocated to new importers of sterilized cream and to importers of other kinds of specialty creams (such as Devon cream, a type of clotted cream). For over quota tariff rates, please see the Appendix on page 22.

In August 2016, due to market shortages, Canada allowed [supplemental imports](#) of cream (minimum 10 percent butterfat content) to meet domestic requirements. Import volumes jumped in the second half of 2016 and remained at elevated levels until the summer of 2017. As Canadian production of butterfat continued to increase, the need for supplemental imports of cream declined in the second half of 2017. FAS/Ottawa does not expect that Canada would need supplementary imports of cream in the near future.

Both fluid milk and cream are eligible under Global Affairs Canada’s policy for [supplementary imports](#), which includes the [Imports for Re-Export Program](#) (IREP). A program similar to IREP, called the [Duties Relief Program](#) (DRP), is operated by the Canada Border Services Agency. Under both programs, Canadian food manufacturers may import milk or cream to use in processed food products, under the condition that such products do not enter the domestic market and are eventually exported.

Under the [Comprehensive and Progressive Agreement for Trans-Pacific Partnership](#) (CPTPP), Canada agreed to a [TRQ](#) for milk of an initial volume of 8,333 MT in year one of implementation, rapidly growing to 50,000 MT in year six of implementation, then gradually increasing to 56,905 MT by year 19 of implementation. After that, the volume remains constant at 56,905 MT per year. Up to 85 percent of this TRQ is to be allocated to the importation of milk in bulk (not for retail sale) to be processed into dairy products which in turn are to be used as ingredients for further processing.

Under CPTPP, Canada also agreed to a cream TRQ (minimum 6 percent butterfat content) of an initial volume of 500 MT in year one of implementation, gradually increasing to 734 MT by year 14 of implementation, after which the volume remains constant at 734 MT per year.

The Canadian Parliament approved the CPTPP implementation bill ([C-79](#)) on October 25, 2018. Canada has not yet notified the Depository of the CPTPP (New Zealand) of its ratification, which would officially add Canada to the tally of CPTPP member states to have ratified the agreement. As of writing, Japan, Mexico, Singapore and New Zealand have all ratified the CPTPP agreement, and Australia has announced its intent to notify ratification by November 1, 2018. The CPTPP will enter into force 60 days after the sixth member state notifies the Depository.

Under the recently announced [United States-Mexico-Canada Agreement](#) (USMCA), Canada committed to a [TRQ](#) for milk of an initial volume of 8,333 MT in year one of implementation, rapidly growing to 50,000 MT in year six of implementation, then gradually increasing to 56,905 MT by year 19 of implementation. After that, the volume remains constant at 56,905 MT per year. Up to 85 percent of this TRQ is to be allocated to the importation of milk in bulk (not for retail sale) to be processed into dairy products which in turn are to be used as ingredients for further processing.

Under USMCA, Canada also agreed to fluid cream TRQ (minimum 6 percent butterfat content) of an initial volume of 1,750 MT in year one of implementation. This volume steeply increases to 10,500 MT in year six of implementation, then gradually increases to 11,950 MT by year 19 of implementation, after which the volume remains at 11,950 MT annually. Of the entire USMCA cream TRQ volume, 85 percent is to be allocated to the importation of cream in bulk (not for retail sale) to be processed into dairy products used as ingredients for further food processing. The cream TRQ is opened to products originating in the United States.

Under the USMCA, the United States also committed to open an aggregated [TRQ](#) for Canada to cover fluid cream (butterfat content between 6 and 45 percent), sour cream, ice cream and milk beverages. The combined volume under this TRQ will be 1.75 million liters in year one of implementation, steeply growing to 10.5 million liters in year six of implementation, then gradually increasing to 11.95 million liters by year 19 of implementation and remaining at that level for subsequent years.

Canada is expected to ratify the USMCA and the necessary implementing legislation later in 2019. The provisions of the NAFTA agreement remain in place until the USMCA enters into force upon ratification by all three member states.

CHEESE

Production, Supply and Distribution (PS&D)

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

Dairy, Cheese*	2017		2018		2019	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Canada						
Beginning Stocks	80	82	80	90	0	90
Production	445	497	450	510	0	515
Total Imports	28	28	29	30	0	35
Total Supply	553	607	559	630	0	640
Total Exports	13	13	10	10	0	10
Total Dom. Consumption	460	504	464	530	0	550
Ending Stocks	80	90	85	90	0	80
Total Distribution	553	607	559	630	0	640

*Please note that starting with this annual report cheese data includes “cottage cheese”.

Data in ‘1,000 metric tons. Imports include re-exports.

Production

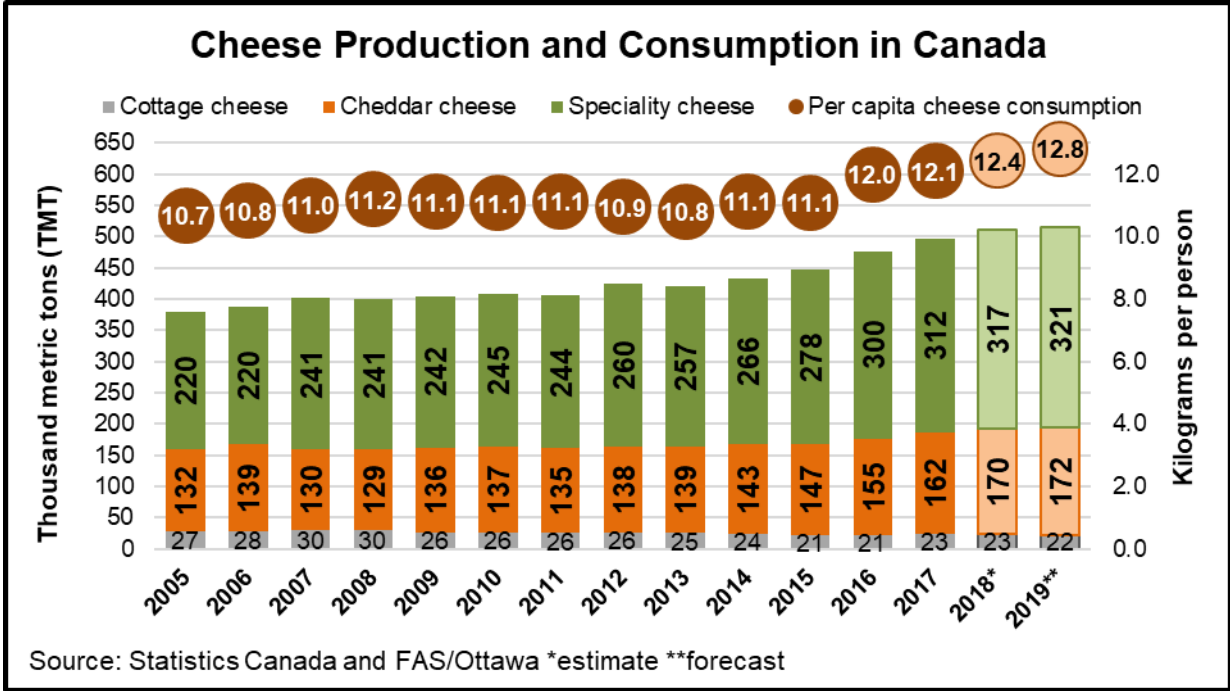
FAS/Ottawa forecasts cheese production at 515,000 MT in 2019, or one percent above the estimated level of 510,000 MT for 2018. This slowdown in cheese production growth is primarily due to a saturated market with stable domestic demand and anticipated large carryover cheese stocks. Larger volumes of cheese imported from the European Union could limit the ability of Canadian cheese manufacturers to fully capture the modest growth in demand.

FAS/Ottawa estimates cheese stocks reached nearly 93,000 MT in May 2018, before declining to 89,000 MT by the end of July. Cheese production has been one of the driving forces behind the recent expansion in milk production in Canada. Between 2014 and 2017, cheese production increased by 15 percent and is expected to grow by an additional 2.6 percent in 2018.

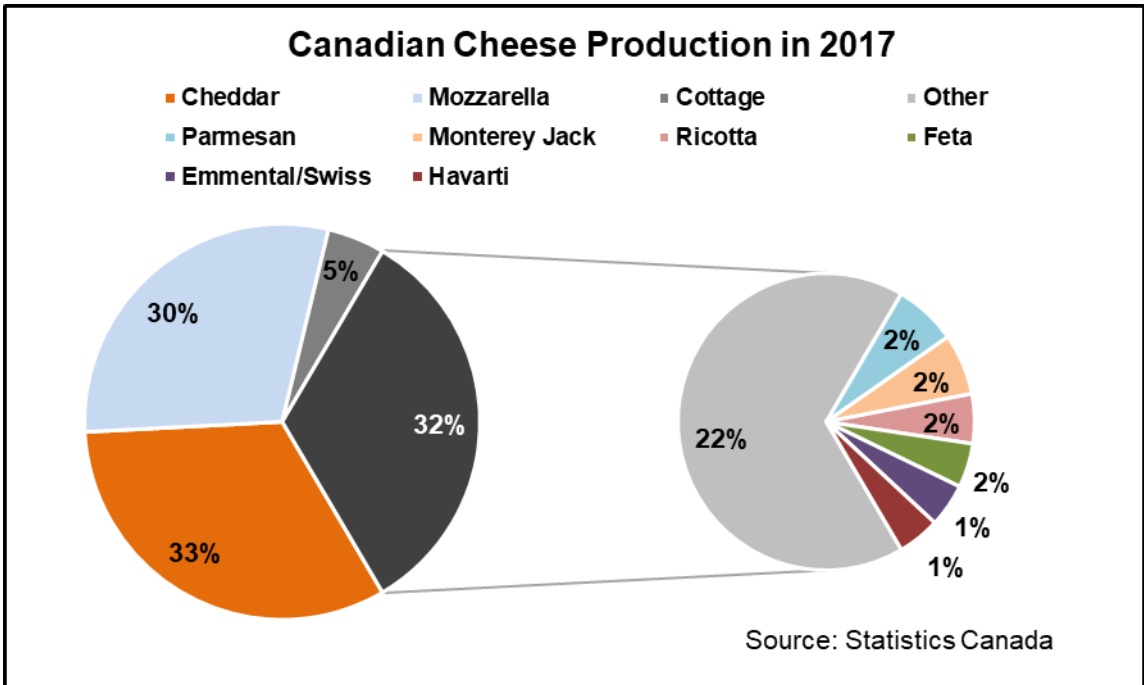
In 2018, several cheese manufacturers announced investments that, once in operation, will contribute to expanded cheese production in Canada: [Fromagerie Bergeron](#) in Quebec, [Amalgamated Dairies Ltd \(ADL\)](#) in Prince Edward Island, and [Bel Canada](#) in Quebec.

Consumption

The recent positive change in consumer perception of consuming foods rich in butterfat has also had an impact on cheese. After a flat or declining trend for a long period, Canadians started to increase consumption of cheese in 2014, and FAS/Ottawa forecasts per capita consumption at nearly 13 kilograms in 2019, up from 11 kilograms just five years ago. FAS/Ottawa projects total 2019 cheese consumption to reach 550,000 MT, up from an estimated 530,000 MT in 2018.



Consumption of various types of cheese in Canada largely mirrors the domestic production pattern. After cheddar, which represents one third of cheese consumed in Canada, the second largest type of cheese consumed is mozzarella, at about 30 percent of the total. Mozzarella is widely used in fresh and frozen pizza, but also as an ingredient in a variety of further processed food products such as lasagna and other pasta-based dishes.



Cottage cheese represents about 5 percent of total cheese consumed in Canada, while the remaining one third of total cheese consumed is composed of various types of specialty cheeses. Many of these specialty cheeses are used industrially as ingredients in further processed foods, while others are typically used in hamburgers, sandwiches and subs (like Swiss, Monterey Jack, Havarti, or Provolone).

A smaller percentage of the specialty cheese consumed in Canada falls in the fine cheese category, including cheeses like parmesan, blue cheeses, fine hard cheeses (e.g., Asiago) and fine soft cheeses (e.g., Camembert). Industry sources indicate that the market for fine cheeses is growing, as Canadian consumers are exposed to an increasingly wider choice, including via additional imports of fine cheese from the European Union. In addition, recent immigration patterns have also expanded the market for specialty cheeses from the Middle East and Latin America.

Trade

FAS/Ottawa forecasts cheese imports to reach 35,000 MT in 2019, based on expanded imports from the European Union, as the TRQ under the Comprehensive Economic and Trade Agreement (CETA) enters its third year of implementation. For 2018, FAS/Ottawa estimates Canadian imports of cheese at 30,000 MT.

Canada Import Statistics								
Commodity: 0406, Cheese And Curd								
Year To Date: January - August								
Partner Country	Unit	Quantity			% Share			% Change
		2016	2017	2018	2016	2017	2018	2018/2017
World	T	17,319	18,112	18,884	100.00	100.00	100.00	4.26
EU28	T	9,692	10,032	11,557	55.96	55.39	61.20	15.21
United States	T	5,383	5,811	4,841	31.08	32.09	25.64	- 16.70
Switzerland	T	1,151	1,154	1,339	6.65	6.37	7.09	16.07
Norway	T	957	972	1,000	5.53	5.37	5.30	2.91
New Zealand	T	23	28	44	0.13	0.15	0.23	59.07
Australia	T	16	7	7	0.09	0.04	0.03	- 5.45
Other countries	T	97	108	96	0.56	0.60	0.51	-11.11

Source: Global Trade Atlas

Based on its WTO commitments, Canada maintains a cheese [TRQ](#) of 20,412 MT annually. Of this total TRQ volume, 14, 272 MT (nearly 70 percent) are allocated to imports from the European Union (per Canada's WTO commitment) and the balance is made available to imports from all other countries. Any kinds of cheese are eligible to be imported under this TRQ. The volumes are allocated to traditional (historical) [importers](#) of cheese (87 companies) and the TRQ fill rate typically reaches 100 percent. For over quota tariff rates, please see the Appendix on page 22.

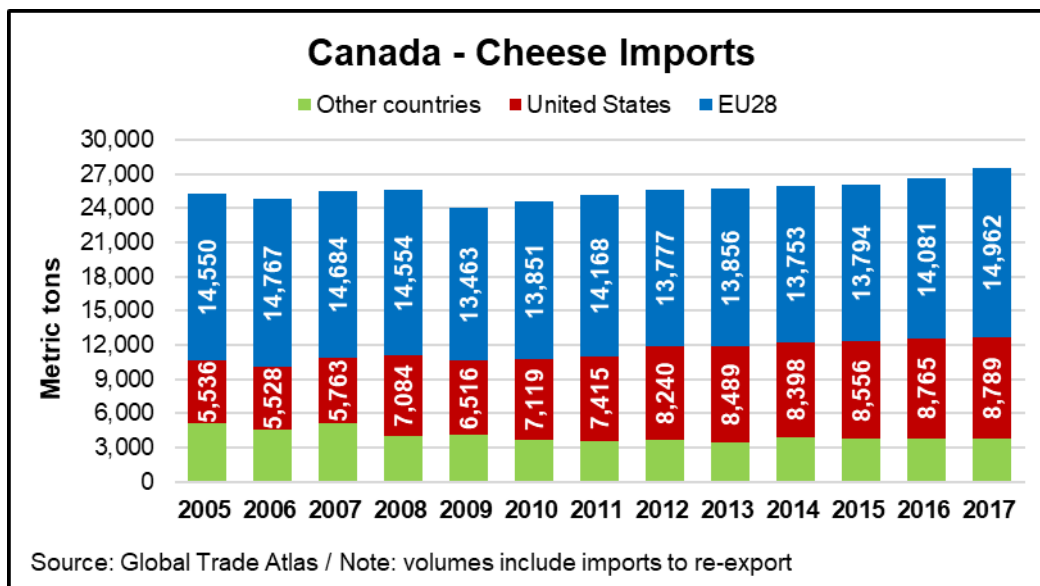
Under the CETA, Canada provided access to EU member countries under two distinct TRQs: an industrial cheese TRQ and an all-cheeses TRQ. Both TRQs are implemented over a six-year period, as per the table below:

Quota Year	Industrial Cheese TRQ (in MT)	All Cheeses TRQ (in MT)
2017	79	745
2018	567	5,333
2019	850	8,000
2020	1,133	10,667
2021	1,417	13,333
2022 and onward	1,700	16,000

The CETA [all-cheeses TRQ](#) is allocated to two categories of [importers](#): dairy processors (62 companies) and distributors/retailers (200 companies). For both categories, 30 percent of the TRQ volume is allocated to small and medium-sized companies (to a total of 60 percent of the TRQ volume) and 20 percent is allocated to large companies (to a total of 40 percent of the TRQ volume).

The CETA [industrial cheese TRQ](#) is entirely allocated to [further processors](#) (17 companies), defined as companies that use cheese as an ingredient in the production of further processed food products, other than cheese, in their own provincially-licensed or federally-registered processing facilities.

In 2018, large volumes under both CETA cheese TRQs have gone unfilled. On a pro-rated basis through the first 42 weeks of the year, the expected annual fill rates were 51 percent for the all-cheeses TRQ and 9 percent for the industrial cheese TRQ. By comparison, the pro-rated annual fill rate for the WTO cheese TRQ was 97 percent. According to various industry sources, the reasons why the CETA cheese TRQs have been under-filled have primarily related to the high number of new quota holders, companies with little experience in importing cheese, and the low import allocation volumes, quantities under 10 MT which are not commercially viable. As Canada enters 2019, its second full year of implementing the CETA cheese TRQs, industry sources expect fill rates to increase on the combined effect of larger TRQ volumes and improved import experience among small companies.



Cheese is a product eligible under Global Affairs Canada’s policy for [supplementary imports](#), which includes the [Imports for Re-Export Program](#) (IREP). A program similar to IREP, called the [Duties Relief Program](#) (DRP), is operated by the Canada Border Services Agency. Under both programs, Canadian companies may import cheese to use in processed food products, under the condition that such products do not enter the domestic market and are eventually exported.

Under the [CPTPP](#), Canada agreed to three [TRQs](#) for cheese, which would provide the following levels of market access:

- an industrial cheese TRQ of an initial volume of 1,329 MT in year one of implementation, rapidly increasing to 7,975 MT in year six of implementation, then gradually increasing to 9,076 MT by year 19 of implementation; after that, the volume remains constant at 9,076 MT per year; the cheese under this TRQ would have to be imported in bulk (not for retail sale) and used as ingredients for further food processing;
- a mozzarella and prepared cheese TRQ of an initial volume of 483 MT in year one of implementation, rapidly increasing to 2,900 MT in year six of implementation, then gradually increasing to 3,300 MT by year 19 of implementation; after that, the volume remains constant at 3,300 MT per year; and
- an all-cheese TRQ of an initial volume of 604 MT in year one of implementation, rapidly increasing to 3,625 MT in year six of implementation, then gradually increasing to 4,126 MT by year 19 of implementation; after that, the volume remains constant at 4,126 MT per year.

The Canadian Parliament approved the CPTPP implementation bill ([C-79](#)) on October 25, 2018. Canada has not yet notified the Depository of the CPTPP (New Zealand) of its ratification, which would officially add Canada to the tally of CPTPP member states to have ratified the agreement. As of writing, Japan, Mexico, Singapore and New Zealand have all ratified the CPTPP agreement, and Australia has announced its intent to notify ratification by November 1, 2018. The CPTPP will enter into force 60 days after the sixth member state notifies the Depository.

Under the recently announced [USMCA](#), Canada committed to two [TRQs](#) for cheese, which would provide the following levels of market access:

- an industrial cheese TRQ of an initial volume of 1,042 MT in year one of implementation, rapidly increasing to 6,250 MT in year six of implementation, then gradually increasing to 7,133 MT by year 19 of implementation; after that, the volume would remain constant at 7,133 MT per year; and
- an all-cheese TRQ of an initial volume of 1,042 MT in year one of implementation, rapidly increasing to 6,250 MT in year six of implementation, then gradually increasing to 7,133 MT by year 19 of implementation; after that, the volume would remain constant at 7,133 MT per year.

The USMCA cheese TRQ would be available exclusively to imports from the United States. The USMCA also includes provisions to ensure the cheese TRQs volumes would be allocated in commercially viable shipping quantities.

Under the USMCA, the United States also committed to open a [TRQ](#) for Canada to cover cheeses of all types. The market access available under this TRQ would cover an initial 2,083 MT of cheese in year one of implementation, rapidly increasing to 12,500 MT in year six of implementation, then gradually increasing to 14,226 MT by year 19 of implementation. After that, the volume would remain constant at 14,226 MT per year.

The USMCA is expected to be signed by the three member states in November 2018. Canada is expected to ratify the agreement and the necessary implementing language later in 2019. The provisions of the NAFTA agreement remain in place until the USMCA enters into force upon ratification by all three member states.

Following the additional market access for cheese that Canada provided under CETA and is expected to provide under CPTPP and USMCA, domestic dairy processors have expressed [concerns](#). Canadian dairy processors believe the TRQ volumes will offset growth in sales of domestic cheeses and potentially could lead to cuts in domestic cheese production. The federal government has indicated the intention to provide [compensation measures](#) to milk producers for future market losses. As the dairy industry is still evaluating the impact of these trade agreements on their sector, such compensation measures have yet to be officially quantified and may eventually cover the dairy processing sector as well.

BUTTER

Production, Supply and Distribution (PS&D):

Dairy, Butter Canada	2017		2018		2019	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	12	12	30	21	0	35
Production	120	109	127	123	0	125
Total Imports	22	21	20	17	0	10
Total Supply	154	142	177	161	0	170
Total Exports	1	1	2	2	0	2
Domestic Consumption	123	120	135	124	0	128
Ending Stocks	30	21	40	35	0	40
Total Distribution	154	142	177	161	0	170

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data
Data in '1,000 metric tons. Imports include re-exports.

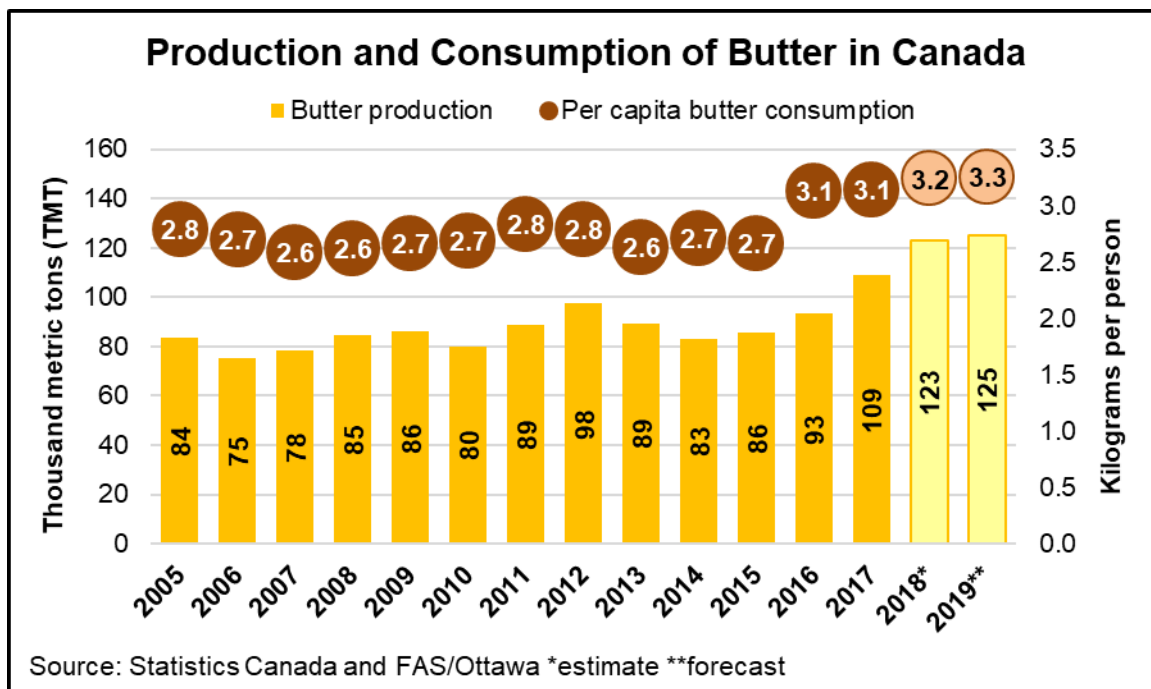
Production

FAS/Ottawa forecasts butter production for 2019 to reach 125,000 MT, up from the estimated level of 123,000 MT in 2018. Although this production level would be a record for Canada, the pace of growth will slow down in 2019, as domestic supply has already surpassed market requirements.

Between 2014 and 2017, butter production increased by 31 percent, a reflection of the strong and increasing demand for butterfat. In 2018, butter production is estimated to grow another 13 percent, while for 2019, FAS/Ottawa forecasts a modest less than 2 percent increase, as Canada has ample stocks of butter. In January 2018, butter stocks were at 21,255 MT and rapidly increased to 44,708 MT by the end of June. Measures to reduce milk production implemented by the P5 Milk Pool (see the earlier milk section of this report) are meant to reduce these stocks, which exceeded the industry target of 35,000 MT throughout the summer months. By the end of July 2018, butter stocks declined to 40,120 MT.

Consumption

Butter consumption has grown rapidly over the past five years and is forecast to increase to 3.3 kilograms per capita in 2019, up from about 2.6 kilograms per capita in 2013. As mentioned earlier in this report, Canadian consumers went through a positive change in their perception over the consumption of foods rich in butterfat, and this has had an impact on butter as well.



Trade

With butter stocks at record levels, FAS/Ottawa forecasts butter imports to further decline in 2019, reaching 10,000 MT, down from an estimated level of 17,000 MT for 2018.

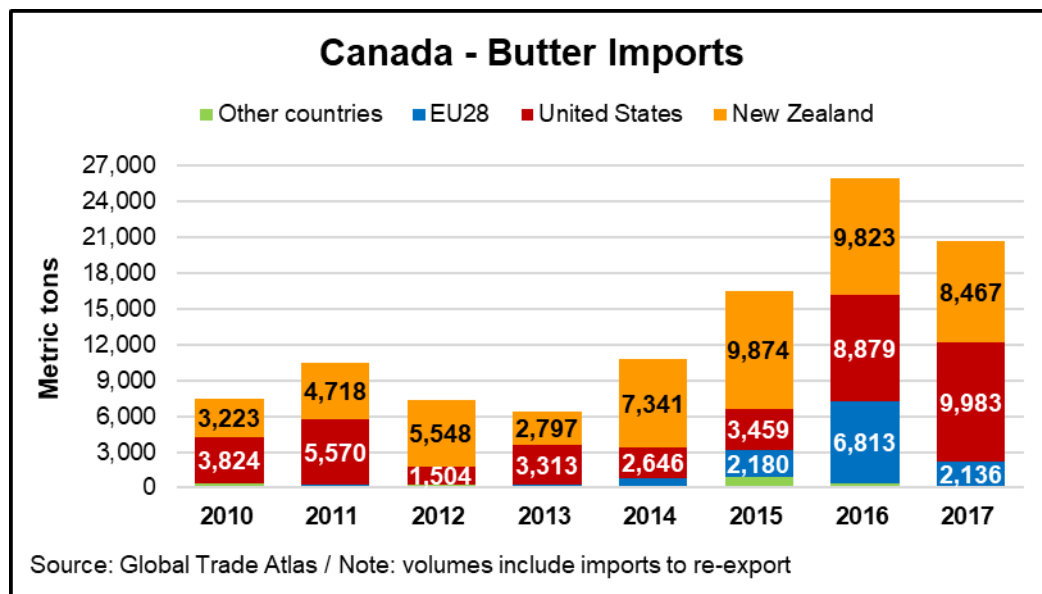
Under WTO commitments, Canada maintains a [TRQ](#) for butter, dairy spreads and fats and oils derived from milk. The total TRQ volume is 3,274 MT, of which 2,000 MT is a country-specific allocation to New Zealand. The entire TRQ volume is allocated to the Canadian Dairy Commission. For over quota tariff rates, please see the Appendix on page 22.

Canada Import Statistics								
Commodity: 0405, Butter And Other Fats And Oils Derived From Milk								
Year To Date: January - August								
Partner Country	Unit	Quantity			% Share			% Change 2018/2017
		2016	2017	2018	2016	2017	2018	
World	T	14,324	15,666	13,506	100.00	100.00	100.00	- 13.79
United States	T	2,900	7,679	9,275	20.25	49.02	68.67	20.78
New Zealand	T	5,612	5,864	4,089	39.18	37.43	30.28	- 30.26
Ireland	T	2,942	410	0	20.54	2.62	0.00	- 100.00
United Kingdom	T	1,928	1,523	0	13.46	9.72	0.00	- 100.00
Other countries	T	942	190	142	6.58	1.21	1.05	-25.26

Source: Global Trade Atlas

In any given year, actual imports of butter into Canada typically exceed the TRQ volumes. This is due to the fact that butter is a product eligible under Global Affairs Canada’s policy for [supplementary](#)

[imports](#), which includes the [Imports for Re-Export Program](#) (IREP). A program similar to IREP, called the [Duties Relief Program](#) (DRP), is operated by the Canada Border Services Agency. Under both programs, Canadian companies may import butter to use in processed food products, under the condition that such products do not enter the domestic market and are eventually exported.



As the demand for butterfat rapidly grew starting from 2014, domestic producers were not able to meet market requirements and Canada had to import additional volumes of butter under the supplementary imports policy. Once domestic production caught up with demand, the need for supplementary imports dissipated and FAS/Ottawa does not expect such imports to resume in the near future. Currently, the vast majority of additional volumes of butter that are imported above the WTO TRQ level take place under the IREP and DRP.

Under the [CPTPP](#), Canada agreed to a [TRQ](#) for butter which would provide market access for an initial volume of 750 MT in year one of implementation, steeply increasing to 4,500 MT by year six of implementation, and then gradually increasing to 5,121 MT by year 19 of implementation. After that, the volume would remain constant at 5,121 MT per year. Up to 85 percent of this TRQ is to be allocated to bulk imports of butter (not for retail sale) to be used in further food processing.

The Canadian Parliament approved the CPTPP implementation bill ([C-79](#)) on October 25, 2018. Canada has not yet notified the Depository of the CPTPP (New Zealand) of its ratification, which would officially add Canada to the tally of CPTPP member states to have ratified the agreement. As of writing, Japan, Mexico, Singapore and New Zealand have all ratified the CPTPP agreement, and Australia has announced its intent to notify ratification by November 1, 2018. The CPTPP will enter into force 60 days after the sixth member state notifies the Depository.

Under the recently announced [USMCA](#), Canada committed to a [TRQ](#) for butter and cream powder, which would provide market access for an initial volume of 750 MT in year one of implementation.

This volume would steeply increase to 4,500 MT in year six of implementation, then gradually increase to 5,121 MT by year 19 of implementation, after which the volume would remain at 5,121 MT annually. In the first quota year, up to 85 percent of the USMCA butter and cream powder TRQ volume is to be allocated for further processing. This percentage is to decline every year in equal installments, so that in year five of implementation only 50 percent of the TRQ would be allocated for further processing, with the remaining volumes being made available for any use. This butter and cream powder TRQ would be opened exclusively to imports from the United States.

Under the USMCA, the United States also committed to open an aggregated [TRQ](#) for Canada to cover butter, fluid cream (of minimum 45 percent butterfat content) and cream powder. The combined volume under this TRQ would be 750 MT in year one of implementation, after which the volume would steeply increase to 4,500 MT in year six of implementation, then would gradually increase to 5,121 MT by year 19 of implementation. After that, the volume would remain constant at 5,121 MT annually.

The USMCA is expected to be signed by the three member states in November 2018. Canada is expected to ratify the agreement and the necessary implementing language later in 2019. The provisions of the NAFTA agreement remain in place until the USMCA enters into force upon ratification by all three member states.

SKIM MILK POWDER

Production, Supply and Distribution (PS&D):

Dairy, Milk, Nonfat Dry Canada	2017		2018		2019	
	USDA Official	NEW Post Data	USDA Official	NEW Post Estimates	USDA Official	NEW Post Forecast
Beginning Stocks	72	73	54	54	0	35
Production	125	109	140	115	0	120
Total Imports	4	4	4	5	0	5
Total Supply	201	186	198	174	0	160
Total Exports	72	72	85	70	0	75
Total Dom. Consumption	75	60	76	69	0	60
Ending Stocks	54	54	37	35	0	25
Total Distribution	201	186	198	174	0	160

NOTE: "NEW Post" data reflect author's assessments and are NOT official USDA data

Data in '1,000 MT

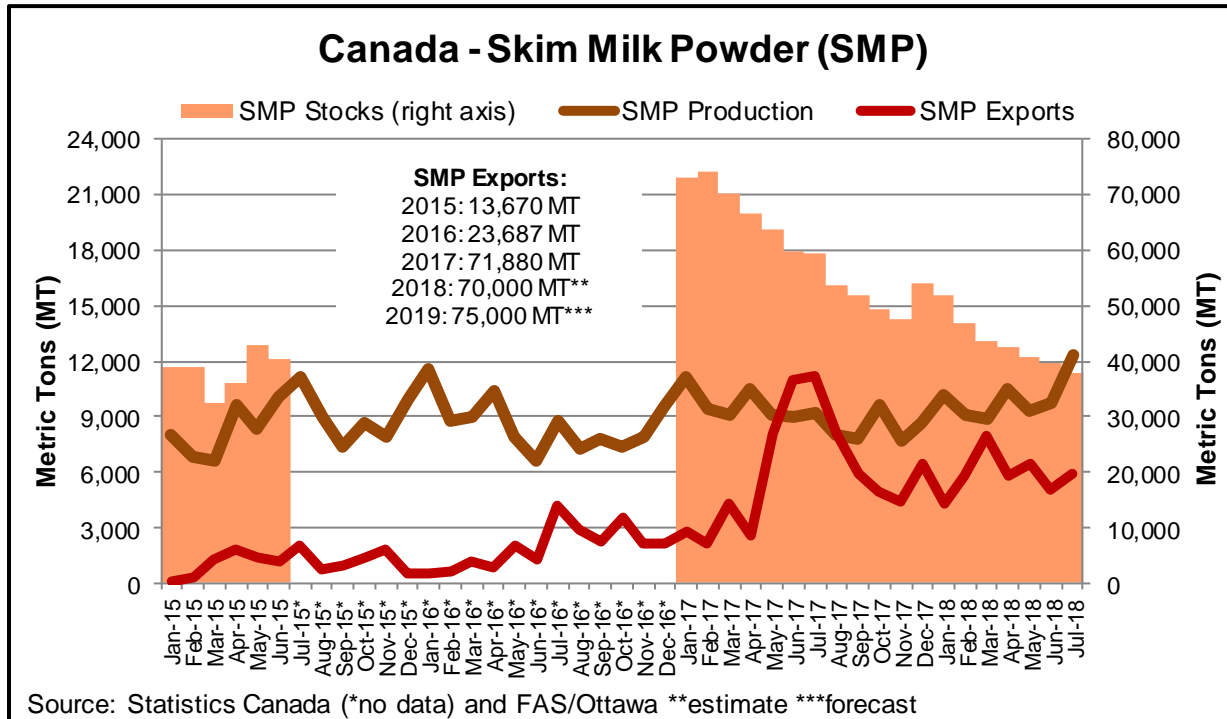
Production

FAS/Ottawa forecasts skim milk powder (SMP) production to reach 120,000 MT in 2019, as a result of sustained butter production and the expected coming into operation of a new skim milk dryer. Gay Lea [announced](#) in November 2016, an expansion to its existing plant in Teeswater, Ontario, to include a new skim milk dryer, scheduled to enter operation during the first half of 2019. The estimated SMP production volume for 2018 is 115,000 MT.

Typically, SMP production follows the trends in butter production, as skim milk is a by-product of processing milk into butter. Between 2014 and 2017, SMP production in Canada increased by 33 percent, and is estimated to grow another 5 percent in 2018. Over the past two years, SMP production in Canada was further supported by the introduction of the new milk class 7.

As part of Canada's "National Ingredient Strategy," class 7 became effective on February 1, 2017. Class 7, also called the National Ingredient Class, includes milk processed for specific ingredients, including SMP. For a further discussion of the introduction of class 7 and its effects, please see the July 2017 issue of [Dairy: World Markets and Trade](#), published by the Foreign Agricultural Service.

Following the introduction of milk class 7, the Canadian Dairy Commission (CDC) stopped purchasing and storing SMP under its Surplus Removal and Domestic Seasonality Programs. The CDC also stopped exporting SMP. In turn, Canadian dairy processors became responsible for managing the surplus SMP, including exports. Prior to February 2017, the largest surplus disposal market for SMP was the domestic animal feed market. As SMP export prices are considerably higher than domestic animal feed prices, processors started to export larger amounts of SMP to drawn SMP stocks. From their highest published level of nearly 73,000 MT in February 2017, SMP stocks had declined to nearly 38,000 MT by the end of July 2018.



Consumption

Following the introduction of class 7, Canadian processors have been able to access domestically produced non-fat milk solids at lower prices. These non-fat milk solids are used as ingredients in manufacturing various dairy products such as cheese, yogurt and ice cream. While the use of Canadian SMP in processed dairy products increased, the use of SMP as animal feed declined. In addition, exports of SMP have grown considerably over the past two years. FAS/Ottawa forecasts Canadian utilization of SMP to drop to 60,000 MT in 2019, from an estimated level of 69,000 MT in 2018. This decline in domestic use reflects the continued attractiveness of SMP exports, as an alternative to domestic disposal of SMP as animal feed.

Trade

Following the introduction of Class 7, Canadian SMP exports grew to record high levels, reaching nearly 72,000 MT in 2017. FAS/Ottawa forecasts SMP exports to reach 75,000 MT in 2019, up from an estimated level of 70,000 MT in 2018. For over quota tariff rates, please see the Appendix on page 22.

In previous years, when the Canadian Dairy Commission was responsible for managing Canadian surplus SMP, and was using exports as a way of disposing of part of this surplus, SMP exports were limited by Canada’s WTO annual export subsidy commitment levels. The maximum allowed subsidized export volume is 44,953 MT, while the maximum outlays commitment is just over \$31 million CAD, for any marketing year from August 1 to July 31 of the following year.

Under the WTO Decision on Export Competition adopted at the 10th WTO Ministerial Conference in Nairobi in December 2015, Canada agreed to end the use of most export subsidies as of December 19,

2015. However, Canada is permitted to continue to provide export subsidies for certain processed products and dairy products until the end of 2020.

Canada Export Statistics								
Commodity: 040210, Skim Milk Powder								
Year To Date: January - August								
Partner Country	Unit	Quantity			% Share			% Change
		2016	2017	2018	2016	2017	2018	2018/2017
World	T	13,636	50,152	47,256	100.00	100.00	100.00	- 5.78
Algeria	T	402	7,594	11,778	2.95	15.14	24.92	55.09
Egypt	T	4,766	6,799	7,728	34.95	13.56	16.35	13.67
Philippines	T	1,924	3,490	4,653	14.11	6.96	9.85	33.31
Japan	T	0	420	3,425	0.00	0.84	7.25	716.44
Syria	T	76	2,691	3,113	0.56	5.37	6.59	15.69
Mexico	T	2,135	5,897	2,371	15.66	11.76	5.02	- 59.79
United Arab Emirates	T	0	350	1,945	0.00	0.70	4.12	455.93
Pakistan	T	0	798	1,861	0.00	1.59	3.94	133.23
Malaysia	T	0	4,914	1,725	0.00	9.80	3.65	- 64.90
Indonesia	T	1,225	2,290	928	8.98	4.57	1.96	- 59.49
Cuba	T	825	2,400	225	6.05	4.79	0.48	- 90.64
Vietnam	T	500	2,550	200	3.67	5.08	0.42	- 92.16
Other countries	T	1,783	9,959	7,304	13.08	19.86	15.46	-22.16

Source: Global Trade Atlas

Under the [CPTPP](#), Canada agreed to a [TRQ](#) for SMP which would provide market access for an initial volume of 1,250 MT in year one of implementation, steeply increasing to 7,500 MT by year six of implementation, and then gradually increasing to 11,014 MT by year 19 of implementation. After that, the volume would remain constant at 11,014 MT per year.

The Canadian Parliament approved the CPTPP implementation bill ([C-79](#)) on October 25, 2018. Canada has not yet notified the Depository of the CPTPP (New Zealand) of its ratification, which would officially add Canada to the tally of CPTPP member states to have ratified the agreement. As of writing, Japan, Mexico, Singapore and New Zealand have all ratified the CPTPP agreement, and Australia has announced its intent to notify ratification by November 1, 2018. The CPTPP will enter into force 60 days after the sixth member state notifies the Depository.

Under the recently announced [USMCA](#), Canada committed to a [TRQ](#) for SMP, which would provide market access for an initial volume of 1,250 MT in year one of implementation. This volume would steeply increase to 7,500 MT in year six of implementation, then would gradually increase to 8,536 MT by year 19 of implementation, after which the volume would remain at 8,536 MT annually. This SMP TRQ would be exclusively opened to imports from the United States.

Under the USMCA, the United States also committed to open an SMP [TRQ](#) for Canada. The market access provided under this TRQ would start at 1,250 MT in year one of implementation, after which the volume would steeply increase to 7,500 MT in year six of implementation, then would gradually

increase to 8,536 MT by year 19 of implementation. After that, the volume would remain constant at 8,536 MT annually.

The USMCA is expected to be signed by the three member states in November 2018. Canada is expected to ratify the agreement and the necessary implementing language later in 2019. The provisions of the NAFTA agreement remain in place until the USMCA enters into force upon ratification by all three member states.

APPENDIX: Canadian Over-Quota Tariff Rates for Dairy Products

Dairy Product Description	Tariff Item Number (HS 6-digit level)	Over-Quota Tariff
Fluid milk	0401.10, 0401.20	241% but not less than \$34.50/hl
Cream	0401.40	292.5% but not less than \$2.48/kg
Skim milk powder	0402.10	201.5% but not less than \$2.01/kg
Whole milk powder	0402.21, 0402.29	243% but not less than \$2.82/kg
Whole cream powder	0402.21, 0402.29	295.5% but not less than \$4.29/kg
Concentrated and evaporated milk and cream, not sweetened	0402.91	259% but not less than 78.9¢/kg
Concentrated and evaporated milk and cream, other	0402.99	255% but not less than 95.1¢/kg
Yogurt	0403.10	237.5% but not less than 46.6¢/kg
Powdered buttermilk	0403.90	208% but not less than \$2.07/kg
Liquid buttermilk, sour cream	0403.90	216.5% but not less than \$2.15/kg
Powdered whey	0404.10	208% but not less than \$2.07/kg
Products consisting of natural milk constituents	0404.90	270% but not less than \$3.15/kg
Butter	0405.10	298.5% but not less than \$4.00/kg
Dairy Spreads	0405.20	274.5% but not less than \$2.88/kg
Other fats and oils derived from milk	0405.90	313.5% but not less than \$5.12/kg
Cheese	0406	245.5%

Dairy Product Description	Tariff Item Number (HS 6-digit level)	Over-Quota Tariff
		but not less than \$3.53/kg
Chocolate ice cream mixes	1806.20, 1806.90	265% but not less than \$1.15/kg
Various food preparations containing dairy products (e.g., ice cream mixes, puddings)	1901.20, 1901.90	Between 244% and 267.5% but not less than between \$1.16/kg and \$2.91/kg
Ice cream	2105	277% but not less than \$1.16/kg
Milk, cream and butter substitutes	2106.90	212% but not less than \$2.11/kg
Food preparations containing 50% or more by weight of dairy content	2106.90	274.5% but not less than \$2.88/kg
Non-alcoholic beverages containing 50% or more by weight of dairy content, not for retail sale	2202.90	256% but not less than \$36.67/hl
Animals feeds containing 50% or more by weight of non-fat milk solids	2309.90	205.5% but not less than \$1.64/kg
Milk protein substances*	3504	270% but not less than \$3.15/kg

Source: [Canadian Customs Tariff](#)

* Not applicable to countries with which Canada has a free trade agreement (such as the United States)